A Report
to the
Montana
Legislature

Financial-Compliance Audit

Department of Public Health and Human Services

For the Two Fiscal Years Ended June 30, 2009

November 2009

Legislative Audit Division

09-14

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November 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Public Health and Human Services for the two fiscal years ended June 30, 2009. This report includes issues related to internal controls over federal programs, federal questioned costs, and compliance with federal and state laws and regulations.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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Report Summary

Department of Public Health and Human Services

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2009. We issued an unqualified opinion on the financial schedules , which means the reader may rely on the presented financial information and the supporting data on the state's accounting system for the two fiscal years ending June 30, 2009.

This audit report contains 14 recommendations to the department. The issues discussed in the report relate to internal controls and compliance with federal regulations and state law. We note in the report whether findings and recommendations also effect funding under the American Recovery and Reinvestment Act (ARRA).

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

We recommend the department:

A. Implement procedures to ensure federal Low Income Energy Assistance Program and Weatherization Program eligibility guidelines are applied consistently.

B. Enhance monitoring control tests to identify eligibility errors in the Low Income Energy Assistance Program and Weatherization Programs.

We recommend the department develop and implement procedures to ensure the Vocational Rehabilitation counselors comply with federal regulations, and state and department policy when processing the recipient's application and benefits.

We recommend the department develop and implement procedures to limit enrollment in the Children's Health Insurance Program to families who meet income requirements of the state plan and federal regulations.

We recommend the department:

A. Monitor compliance with established policy to ensure income verifications are performed.

B. Obtain a waiver for alternative income verification procedures or perform the income verification procedures as required by Temporary Assistance to Needy Families and Supplemental Nutrition Assistance Program regulations.

We recommend the department enforce current procedures to ensure all out-of-state benefits for Temporary Assistance to Needy Families are properly recorded on the department's records as required by federal regulations.

We recommend the department:

A. Provide Women, Infants, and Children program staff training to ensure they complete and document local agency monitoring reviews in accordance with the Women, Infants, and Children program state plan.

B. Assign responsibility for updating the Women, Infants, and Children program tracking spreadsheet to ensure local agency monitoring reviews are completed, communicated, and resolved in the timeframes established in the Women, Infants, and Children program state plan.

We recommend the department:

A. Develop procedures to incorporate the requirements of the State Plan when identifying high-risk vendors and document the decisions made with respect to the vendors selected for each type of monitoring.

B. Monitor the progress of compliance investigations and monitoring visits as intended.

C. Provide training in the provisions of the state plan to Women, Infants, and Children program personnel to provide assurance of compliance with its provisions.

Chapter I – Introduction

Introduction and Scope of Audit

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2009. The objectives of the audit were to:

1. Determine whether the department complied with selected applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly, the results of operations for the two fiscal years ended June 30, 2009.

This report contains 14 recommendations to the department. These recommendations address areas where the department can improve internal controls and compliance with federal and state laws and regulations. Other concerns deemed not to have a significant effect on the successful operation of department programs have been discussed with department management and are not included in this report. In accordance with §5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

Background

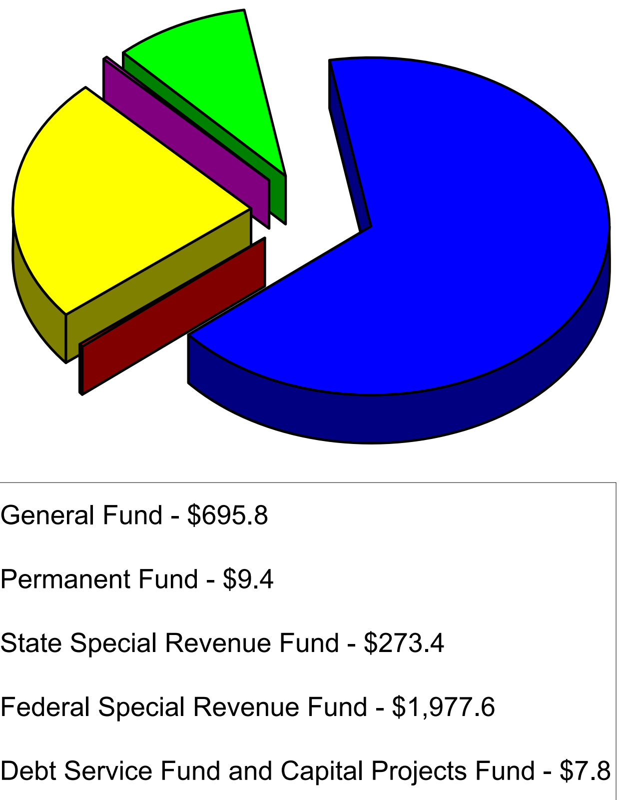
The department spent approximately $1.6 billion in fiscal year 2008-09, and $1.4 billion in fiscal year 2007-08, administering a wide spectrum of social service and health programs for the state of Montana. The programs include medicaid, foster care and adoption, nursing home licensing long term care, aging services, alcohol and drug abuse programs, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health services, including communicable disease control and preservation of public health through chronic disease prevention.

Department facilities include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans Home, Glendive; Montana Veterans Home, Columbia Falls; and Montana Developmental Center, Boulder.

Total expenditures by fund for the two fiscal years ended June 30, 2009, are identified in Figure 1. Benefits and Claims expenditures account for approximately 75 percent of the total expenditures.

Figure 1

Expenditures by Fund for the Two Fiscal Years Ended June 30, 2009
Amounts in Millions

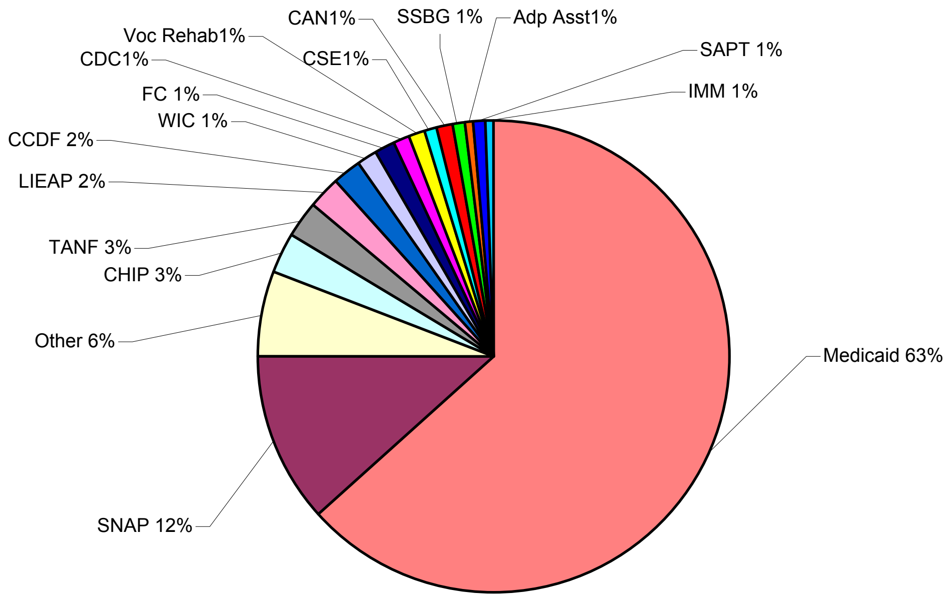


Source: Compiled by the Legislative Audit Division from department accounting records.

Federal regulations provide guidance to define major federal programs for the state of Montana, and are subject to audit under federal Office of Management and Budget circular A-133. The department has 16 major federal programs with expenditures ranging between $13.64 million and $1,258.80 million for the two fiscal years ended June 30, 2009. We spend substantial audit effort determining whether these programs are operated in compliance with federal regulations. Figure 2 identifies these programs and the related expenditures recorded on the state's accounting records. Determination of major federal programs includes receipt of noncash assistance. The Immunization Program received $14,908,622 in federal assistance of which $12,696,824 was noncash (vaccine) assistance for the two fiscal years ended June 30, 2009.

Figure 2

Federal Program Expenditures for the Two Fiscal Years Ended June 30, 2009
Amounts in Millions



Amounts in Millions

Medicaid	$1,258.80
Supplemental Nutritional Assistance Program (SNAP)	230.90
Other NonMajor Federal Programs (Other)	116.67
Children's Health Insurance Plan (CHIP)	55.48
Temporary Assistance for Needy Family Program (TANF)	52.20
Low Income Energy Assistance Program (LIEAP)	42.14
Child Care Development Fund (CCDF)	39.14
Women, Infants, and Children (WIC)	28.37
Foster Care (FC)	23.89
Center for Disease Control (CDC)	24.01
Vocational Rehabilitation Grant to States (Voc Rehab)	21.99
Child Support Enforcement (CSE)	18.75
Child and Adult Nutrition (CAN)	19.01
Social Services Block Grant (SSBG)	16.21
Adoption Assistance (Adp Asst)	14.21
Substance Abuse Prevention and Treatment (SAPT)	13.64
Immunization cash assistance (IMM)	2.21
Sub Total	**1,977.62**
Immunization noncash assistance (IMM)	12.70
Total	**$1,990.32**

Source: Compiled by the Legislative Audit Division from department records.

Increases in Social Services

Benefits and claims expenditures totaled $1.9 billion in the 2007 biennium and $2.2 billion in the 2009 biennium which is an increase of 9.5 percent. The number of households receiving assistance has increased significantly in the 2009 biennium. Table 1 below shows changes in caseloads for selected programs from 2008 to 2009.

Table 1
Department of Public Health and Human Services
Caseload Analysis for TANF, Medicaid, CHIP, and SNAP

	June 2009*	June 2008*	Percent Change
Temporary Assistance to Needy Families (TANF)	3,470	2,961	17.20%
Medicaid Title 19 (Physical Health)- Unduplicated Claims	75,548	51,170	47.60%
Medicaid Mental Health	9,322	8,290	12.40%
Enrolled in Children's Health Insurance Program (CHIP)	18,639	16,576	12.40%
Supplemental Nutrition Assistance Program (SNAP)	43,589	35,764	21.90%

*An individual may participate in multiple programs, so the caseloads are not unduplicated counts.

Source: Compiled by the Legislative Audit Division from department records.

Organizational Structure

During the two years ended June 30, 2009, the department was organized into three branches and 11 divisions. Descriptions of the branches and divisions are provided below. The department's organization chart and employee full-time equivalent position allocations at July 1, 2009 are shown in Figure 3 on page 7.

The Director's Office provides overall policy development and administrative guidance to the department. Included in the Office are legal affairs, public information, human resources executive support, preventive resources center, planning, coordination and analysis, and health policy services. The Department of Public Health and Human Services Statewide Advisory Council, the Native American Advisory Council, and the Montana Health Coalition are administratively attached to the department and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

The Operations Services Branch includes the Office of Budget and Finance, and the Office of Fair Hearings. It also includes the following divisions:

- The Business and Financial Services Division provides support services for the department including financial and accounting oversight, cash management, preparation and filing of federal financial reports, purchasing of supplies and equipment, payroll processing, audit coordination, lease management, mail handling, management of vital records and statistics, property and records management, accounts payable, and institutional reimbursements.
- The Quality Assurance Division monitors and ensures the integrity and cost effectiveness of programs administered by the department. Services include: oversight of health and day-care providers, detection and investigation of fraudulent practices affecting Medicaid, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program, identification of responsible parties for paying client medical expenses, oversight of internal and external independent audits for department programs, and provide hearings for clients and providers participating in department programs.
- The Technology Services Division provides technological support in areas critical to the efficient and effective implementation of department programs.

The Medicaid and Health Services Branch includes the Medicaid Systems Support Program and Healthy Montana Kids program. It also includes the following divisions:

- The Senior and Long Term Care Division administers and provides publicly-funded long term care for Montana's senior citizens and persons with physical disabilities through programs consisting of the Office on Aging, Medicaid community and nursing services, the state's two veterans' homes, protective services, and supplemental payments for SSI eligible individuals residing in designated residential care facilities.
- The Disability Services Division provides services that help Montanans with disabilities to live, work, and fully participate in their communities. The division provides or contracts for institutional care, residential services, home-based services to families, case management, and a variety of employment outcome-related services. The division operates for the Montana Developmental Center in Boulder, directs vocational rehabilitation services for individuals with disabilities, administers the Developmental Disabilities Program, Disability Determination Services, and Blind and Low Vision Services, and oversees the Montana Telecommunication Access Program.
- The Addictive and Mental Disorders Division implements and improves a statewide system of prevention, treatment, care, and rehabilitation for Montanans with mental disorders or addictions to drugs or alcohol. The division achieves this by contracting for chemical dependency and adult mental health services with behavioral health providers. It also provides services in inpatient facilities at Montana State Hospital in Warm Springs, Montana Chemical Dependency Center in Butte, and Montana Mental Health Nursing Care Center in Lewistown. In addition, the Medicaid program funds outpatient and residential chemical dependency treatment for adolescents who are Medicaid recipients.

- The Health Resources Division administers Medicaid primary care services, children's mental health services, the Children's Health Insurance Plan, and Big Sky Rx, to improve and protect the health and safety of Montanans. The division reimburses private and public providers for a wide range of preventive, primary, and acute care services.

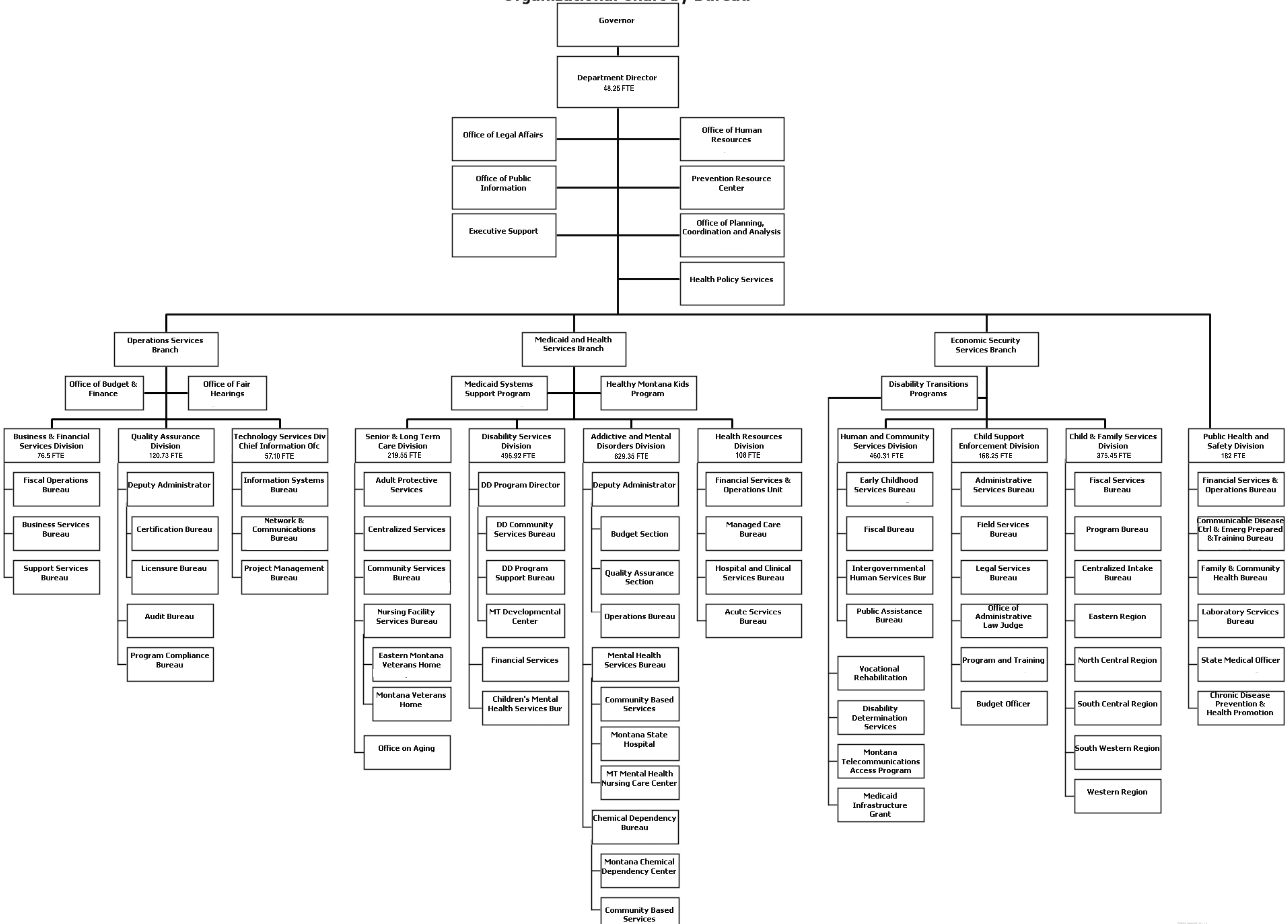
The Economic Security Services Branch includes the Disability Transitions Program. It also includes the following divisions:

- The Human and Community Services Division supports the strengths of families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The program provides cash assistance, employment training, Supplemental Nutritional Assistance Program, Medicaid benefits, early childhood care, energy assistance, weatherization, emergency shelter, and distribution of United States Department of Agriculture commodities.
- The Child Support Enforcement Division obtains medical and financial support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Services include locating absent parents, identifying assets, establishing paternity, and ensuring parents maintain medical health insurance coverage for their dependent children.
- The Child and Family Services Division provides protective services to children who are abused, neglected, or abandoned. This includes receiving and investigating reports of child abuse and neglect, helping families to stay together or reunite, and finding placements in foster or adoptive homes.

The Public Health and Safety Division oversees the coordination of the public health system in Montana. The division provides a wide range of public health services to individuals and communities that are aimed at prevention of disease and promotion of health. Programs include: clinical and environmental laboratory services, chronic and communicable disease prevention and control, maternal and public health services, public health emergency preparedness, Women's Infants and Child Special Nutrition Program, food and consumer safety, tobacco cessation and prevention programs, and emergency medical services.

Figure 3

Department of Public Health and Human Services
Organizational Chart by Bureau



Questioned Costs

In the report sections that follow, we identify, as questioned costs, expenditures of federal assistance that we believe do not comply with regulations of the federal program. Under federal audit requirements, the auditor questions costs associated with an audit finding when the costs result from a violation or probable violation of law or regulation governing the use of federal funds, when the costs are not supported by adequate documentation at the time of the audit, or when the costs incurred appear unreasonable. When federal program personnel resolve the audit issues and set corrective action plans, the federal government may require repayment, reduce the current federal award, or take no financial action on the questioned cost. Table 2 below summarizes the federal questioned costs we identify in the report.

Table 2
Summary of Questioned Costs

Grant Title	Amount of Known Questioned Costs	Potential for Questioned Costs to Exceed $10,000	Page
Low Income Energy Assistance Program	$3,439	Yes	11
Weatherization Assistance for Low-Income Persons	$8,553	Yes	11
Rehabilitation Services - Vocational Rehabilitation Grants to States	$27,876	Yes	13
Children's Insurance Program	$3,894	Yes	14
Supplemental Nutrition Assistance Program	$12,891	Yes	16
Temporary Assistance For Needy Families	$12,681	Yes	16
Adoption	$63,003	Yes	23
Various Federal Programs	$44,552	Yes	27
Medicaid	$11,250	Yes	27
Bioterrorism	$10,000	Yes	27
Child Care and Development Fund	$59,727	Yes	27

Source: Compiled by the Legislative Audit Division.

Prior Audit Recommendations

We determined the implementation status of the 19 prior audit recommendations directed to the department. The department implemented 12, partially implemented five, and did not implement two. The recommendations not implemented concern: WIC compliance investigations (page 22), and compliance with federal adoption regulations (page 23). The recommendations partially implemented include local

agency monitoring (page 19), Medicaid automated data processing system security reviews (page 28) and electronic benefits transfer system internal control deficiencies, which are described below.

Electronic Benefits Transfer System

The department distributes Supplemental Nutrition Assistance Program (SNAP), federal Temporary Assistance for Needy Families (TANF) and department-managed Child Support funds using the Electronic Benefits Transfer system (EBT). In the prior audit, we identified areas where EBT controls could be improved. The status of these issues is outlined in the following paragraphs.

Inadequate Migration Procedures – Prior Audit Recommendation 14

In the prior audit, we identified six department employees using a shared administrator-level account. Individuals with administrator-level account access can update, change, delete or create additional program code. Because of its shared nature, use of this account did not provide accountability for changes. The program code controls the daily process of the EBT system and, if altered, could cause the system to malfunction or potentially deny EBT cardholders' full access to their benefits. In addition, the department did not have a monitoring system to check whether an administrator-level account was used to modify program code. To resolve the issue, the department plans to upgrade the system to allow code migration and review segregation to occur. Department personnel estimate the upgrade will be complete by December 31, 2009. The department should ensure migration procedures are properly controlled.

Contractor Access – Prior Audit Recommendation 15

During the prior audit, we noted the department's contract staff had more access than needed to perform job duties. Department staff operate the EBT database but eight contract employees had full access to the database. A person with full database access has the ability to access production data, alter benefit amounts and receipt or release dates, and remove database files or insert program code to remove database files at a future date. The EBT production database access should be managed to prevent an individual from having control over two or more aspects of an operation including building, testing, and operating the system. In response, department personnel removed a contractor development role that allowed full access to the entire database, requiring contractors to contact department personnel to gain access to make changes to the database. However, they unknowingly allowed eight on-call contractor staff to retain a system administrator role. This role allowed these individuals to maintain full access to numerous database tables. Department personnel requested a new role be developed to allow on-call contractor staff to perform required job duties without full access; current access will be removed when the new role is available. The new role

is projected to be available by September 1, 2009. The department should eliminate unnecessary contractor access to the EBT database.

Benefit Recipient Identification – Prior Audit Recommendation 16

During the previous audit, we determined the department's procedures for replacing lost or stolen EBT cards were insufficient. Replacement cards are obtained based on demographic data stored in the EBT system. A person requesting a replacement card was not required to identify themselves other than by providing their demographic data. We identified 57 individuals with access to the EBT system and the demographic data needed to obtain and activate a replacement card. In response, department personnel requested a report be made available to determine if multiple replacement cards are sent to the same address; the report should be available by September 30, 2009.

The legislature appropriated American Recovery and Reinvestment Act funds to the department for years 2009, 2010, and 2011. Those amounts are $5.5 million for TANF and $48.9 million for SNAP. These additional dollars will flow through the EBT internal control structures currently in place for the TANF and SNAP programs.

CONCLUSION

The above prior audit recommendations are still active. Therefore, the department should continue to improve electronic benefits transfer system controls.

Chapter II – Findings and Recommendations

Internal Controls Over Federal Programs

A control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. The components of a control structure work together to provide assurance an organization operates as management intends: the right people are in the right jobs and know how their individual responsibilities contribute to organizational objectives; management implements policies and procedures to ensure its directives are carried out; management and its staff understand the organization's information processes and how people's roles and responsibilities interact; and management assesses the quality of its control structure over time.

The Department of Administration established the Montana Operations Manual (MOM), Volume II, Chapter 2-9900, Internal Control Guidebook to provide state agencies with internal control guidance. OMB Circular A-133, Subpart C requires the Department of Public Health and Human Services (department) to maintain internal control over federal programs that provides reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs.

The following sections discuss issues where the department can improve internal controls to enhance compliance with federal regulations for specific programs. The issue of federal cash management and federal reporting, discussed on page 24, impacts multiple federal programs.

Low Income Energy Assistance and Weatherization Programs

The department did not always follow federal guidelines in determining eligibility for program applicants and department controls did not detect the errors.

The department receives federal funding to pay part of winter energy bills through the Low Income Energy Assistance Program (LIEAP) and to provide weatherization benefits to low-income households. The department contracts with ten Human Resource Development Councils (HRDCs) and one Area Agency on Aging throughout the state to administer the services funded by this federal program. The following section discusses a concern related to department monitoring of eligibility determination for these two programs.

We identified instances of LIEAP and weatherization recipients being determined eligible for benefits when in fact they were not eligible, and one instance of an applicant determined ineligible when in fact they were eligible. The department's established monitoring controls failed to identify these errors.

- Through testing of 34 files at one HRDC, we identified five recipients receiving benefits whose income exceeded limits for eligibility set by the federal government and the department. These errors resulted in questioned costs totaling of $3,439 for the two years ending June 30, 2009.
- If a household is determined to be income eligible for LIEAP it is also eligible for weatherization benefits. Of the five LIEAP recipients discussed above, we found two had received weatherization benefits in fiscal year 2008-09. Since the household was not eligible for the LIEAP benefit it was not eligible for the weatherization benefits. Therefore, we question $8,553 in Weatherization program expenditures.
- We also tested an additional 18 files at this same HRDC where the applicants were deemed ineligible for the LIEAP benefits. We found one applicant deemed ineligible should have been deemed eligible because the applicant's income was improperly calculated.

The department disbursed approximately $4.6 million in LIEAP and Weatherization programs benefits through this HRDC in the two years ended June 30, 2009. Therefore, we believe the potential questioned costs are likely to exceed $10,000, for both the LIEAP and Weatherization programs for the two fiscal years ended June 30, 2009.

Department field officers perform monitoring visits annually for each of the service providers. One of the errors in eligibility determination identified in our testing was from a file that had been reviewed during the department's monitoring visit but the review did not identify the error. Department management indicated the errors were the result of the HRDC case manager applying income guidelines inconsistently in determining eligibility and agreed the monitoring control structure failed to identify the eligibility errors for the program recipients.

Department management should implement procedures to ensure eligibility guidelines are applied consistently by the HRDC case managers. To enhance file reviews the department should consider identifying and reviewing the files of applicants that fall just within or just outside the income eligibility guidelines. These files may pose higher risk of eligibility determination errors.

The legislature appropriated $35 million in American Recovery and Reinvestment Act funds to the department for the years 2009, 2010, and 2011, for its Weatherization, Homeless Prevention and Rapid Re-Housing Program, and Community Services Block Grant. These additional dollars will flow through the internal control structures discussed above.

Recommendation #1

We recommend the department:

A. *Implement procedures to ensure federal Low Income Energy Assistance Program and Weatherization Program eligibility guidelines are applied consistently.*

B. *Enhance monitoring control tests to identify eligibility errors in the Low Income Energy Assistance Program and Weatherization Programs.*

Vocational Rehabilitation Program

The department has inadequate controls to ensure compliance with all federal Vocational Rehabilitation requirements.

The department receives federal funding to provide rehabilitation training to handicapped individuals through the Vocational Rehabilitation Program (Voc Rehab). The Voc Rehab Program has recorded federal expenditures of approximately $11.5 million for fiscal year 2007-08 and $10.4 million for fiscal year 2008-09. Through our review of 24 Voc Rehab case files, we found the following:

- Four cases where eligibility determination was not made within 60 days.
- One case where the financial need of the recipient was not assessed.
- One case where the counselor authorized payment of services to a recipient that were not identified in the individual's Individualized Plan for Employment (IPE).
- Two expenditures totaling $8,700 made directly to recipients based upon insufficient documentation.
- One expenditure, for the purchase of a $19,176 van which was not processed through the PHHS procurement office.

Federal regulations governing the Voc Rehab Program require determination of eligibility be made within 60 days of the date of application, assessment of financial need as part of this eligibility determination, and services provided to a recipient be based upon an IPE developed in collaboration between the program recipient and a Voc Rehab counselor. According to state accounting policy, all expenditures must be based on department policy and must be adequately supported. Purchases above the threshold of $15,000 must be processed through the department's procurement office. Based on insufficient documentation and failure to follow procurement policies we question Voc Rehab expenditures of $27,876 for the two fiscal years ended June 30, 2009.

Per department management, the department's internal control structure relies upon the Voc Rehab counselor's authorization of payments to ensure expenditures for services are allowable. Our findings indicate the authorization of payment by Voc Rehab counselors did not ensure compliance with federal regulations and state regulations governing the Voc Rehab Program. Based on the issues noted above, the department should develop and implement procedures to ensure the counselors follow Voc Rehab federal regulations, state policy, and department policy when authorizing expenditures.

The legislature appropriated $2.3 million in American Recovery and Reinvestment Act funds to the department for years 2010 and 2011 for its Voc Rehab Program. These additional dollars will flow through the internal control structure discussed above.

Recommendation #2

We recommend the department develop and implement procedures to ensure the Vocational Rehabilitation counselors comply with federal regulations, and state and department policy when processing the recipient's application and benefits.

Children's Health Insurance Program (CHIP)

The department did not comply with some elements of its CHIP state plan, and consequently federal regulations, pertaining to verifying family reported income and determining eligibility.

The department operates the CHIP, currently renamed Healthy Montana Kids, under Title XXI of the Social Security Act which provides funds to support the department's efforts in providing health assistance to uninsured, low-income children. Federal regulations require the department to submit a state plan which outlines the department's intention for the funds. Federal regulations also state that the plan shall include a description of procedures to be used to ensure that only targeted low-income children are furnished child health assistance under the state plan. The department had approximately $55.5 million of CHIP expenditures for the two fiscal years ended June 30, 2009. The following two concerns were noted during our review of CHIP documentation.

- The department does not require income documentation when a family applies for CHIP nor do they request proof of income declared on the family's application under the state plan. The state plan identifies Quality Assurance Reviews (QAR) as the process for income verification. The

department agreed to perform QAR up to 10 percent of the applications to ensure families are within the CHIP income guidelines. The department did not do QARs on any of the 4,270 applicants from July 2007 through October 2007 and on any of the 8,201 applicants from November 2008 through June 2009. When the QARs were completed for the months in our audit period, the department averaged a 12.6 percent ineligibility rate. That means at least 12.6 percent of the applicants were found to be ineligible to participate in the CHIP program. The department's average yearly cost per enrolled members was $1,133.

Department management indicated the Quality Assurance auditor had a work related disability in 2008 and eventually resigned in December of 2008. A replacement Quality Assurance auditor was hired in April 2009, but is still in the learning phase. Due to the lack of staff, the Quality Assurance audits never resumed. Department management stated beginning September 2009 the application process will include income verification at the time of application.

- We reviewed 45 case files of families determined eligible for CHIP by department eligibility technicians. We found one family to be ineligible because the family's income exceeded the CHIP income threshold. As of June 2009 the department has paid providers approximately $3,894 in medical claims related to this family.

  Department management stated the eligibility technician who entered the application into the computer system overlooked one of the parents' incomes. Therefore, the family's total income was not considered when determining eligibility. Management randomly selects and reviews 4 to 5 CHIP case files each week to recertify applicant eligibility. However, this case was not selected for review.

The department should develop and implement procedures to ensure only eligible applicants are enrolled in the CHIP. The department should ensure the income verification process at time of application is enforced as soon as possible.

Since the department paid approximately $3,894 of expenditures for a family that was ineligible for the CHIP we question those costs. Based on the lack of quality assurance review audits for 12 months of the last two years, the number of CHIP participants and the amount of CHIP expenditures, we believe the potential exists for questioned costs to exceed $10,000 for the two years ending June 30, 2009.

RECOMMENDATION #3

We recommend the department develop and implement procedures to limit enrollment in the Children's Health Insurance Program to families who meet income requirements of the state plan and federal regulations.

Temporary Assistance to Needy Families (TANF) & Supplemental Nutrition Assistance Program (SNAP)

The department administers the federal TANF cash assistance program, which provides temporary financial assistance to needy families. They also administer SNAP, which provides supplemental food and nutrition assistance to low income people. The next two sections discuss issues where the department can improve controls over income verification for TANF and SNAP, and recording TANF benefit months.

Income Verification

The department did not perform the quarterly required income verifications for SNAP and TANF benefits which resulted in overpayments of at least $25,572.

While performing testing at a public assistance office, department personnel advised us of a case under investigation because of unreported income by the recipient involving overpayments of TANF and SNAP benefits. At the time a household member was added to the case and during a subsequent redetermination of benefits, the eligibility case manager did not perform income verification procedures required by federal regulations and department policy. As a result the department paid SNAP and TANF benefits for which the recipient was not eligible.

Federal regulations and department policy require the department to verify income for individuals applying for SNAP and TANF assistance and when recipients report income changes. The department's policy requires the eligibility case manager to query all applicable and available computer systems to establish the accuracy of statements on the application, redetermination or reported change. In addition, federal regulations specify that "wage information from the State Wage Information Collection Agency should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis." This information is maintained by the Department of Labor and Industry on its wage data base, Montana Integrated System for Improved Customer Service (MISTICS) system.

Department management stated case workers do not automatically perform a MISTICS wage search on a quarterly basis. The department has implemented a monthly match through the National Director of New Hire (NDNH) database which contains employment and wage information from employers throughout the United States who are required to report new hire information. Department management said the NDNH match revealed a person in the recipient's household earning wages the recipient did not report. Federal guidelines allow the use of an alternative wage verification process, provided permission is obtained. Management noted they were operating under the assumption they had permission to use NDNH as an alternative. However, they did not have documentation of that permission.

Failure to perform income verifications on a quarterly basis as required by federal regulations and department policy increases risk that overpayments will be made and remain undetected. The department should comply with federal and state policy for quarterly income verification requirements. Since the department did not complete the required income verification for the recipient as required by federal regulations, we question costs of $12,681 in TANF benefits and $12,891 in SNAP benefits paid over the two fiscal years ending June 30, 2009.

The legislature appropriated American Recovery and Reinvestment Act funds to the department for years 2009, 2010, and 2011. Those amounts are $5.5 million for TANF and $48.9 million for SNAP. These additional dollars will flow through the internal control structures discussed above.

Recommendation #4

We recommend the department:

A. *Monitor compliance with established policy to ensure income verifications are performed.*

B. *Obtain a waiver for alternative income verification procedures or perform the income verification procedures as required by Temporary Assistance to Needy Families and Supplemental Nutrition Assistance Program regulations.*

Unrecorded Out-of-State TANF Benefits

The department's control procedures do not always ensure a TANF recipient's out-of-state benefit months are recorded on the department records.

Federal regulations limit TANF assistance for any family to a total of 60 months, whether or not consecutive. If information shows an applicant resided in another state, department procedures require inquiry of that state to determine if the applicant received any TANF assistance and to record those benefit months on the records to ensure the 60-month limit is not exceeded. However, we found one instance, out of 11 files reviewed, where out-of-state benefit months were not recorded on the department's records.

Management noted the required form was submitted by the county Offices of Public Assistance (OPA) but three months of out-of-state benefits did not get recorded until we questioned the number of out-of-state months recorded. Personnel said the information

got misplaced, was not recorded, and the completed form was not returned to the OPA. Department management said its written policy requires the case workers to provide information on a specified form to the central office in Helena. The central office conducts inquiry of states and, if applicable, the months are recorded on the department's records. After processing, the central office returns a copy of the form to the case worker. Although all benefits paid in this case were allowable, there is risk an applicant could receive more benefits than allowed if the months of out-of-state benefit payments are not recorded.

Recommendation #5

We recommend the department enforce current procedures to ensure all out-of-state benefits for Temporary Assistance to Needy Families are properly recorded on the department's records as required by federal regulations.

Program for Women, Infants, and Children (WIC)

The Special Supplemental Nutrition Program for Women, Infants, and Children program is a federal program that provides supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Eligible recipients include pregnant women, breast-feeding women up to one year postpartum, nonbreast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk.

The WIC program is 100 percent federally funded through the U.S. Department of Agriculture Food and Nutrition Service. The department is required to sign a Federal/State Agreement (the state plan) that commits it to observe applicable laws and regulations in carrying out the program. The state plan, then, has the force of federal regulation. The department spent approximately $14.3 million and $14.0 million of federal WIC funds in fiscal years 2007-08 and 2008-09, respectively.

We identified instances of noncompliance with the WIC state plan and federal regulation that occurred during fiscal years 2007-08 and 2008-09. These findings are discussed in the three sections below.

Local Agency Monitoring Reviews

The department did not comply with monitoring reviews as required by the WIC state plan.

The department WIC unit works with 27 local agencies encompassing 91 clinics. It is required to establish an on-going management evaluation system that includes monitoring local agency operations. WIC personnel perform on-site monitoring reviews that are to include evaluation of the local agencies' management, eligibility certification, nutrition education, accountability, financial management systems, and food delivery systems. The WIC state plan includes a monitoring worksheet that is used to document the monitoring review.

We reviewed the documentation of eight monitoring visits, five from fiscal year 2007-08 and three from fiscal year 2008-09. We found that not all monitoring reviews were completed in accordance with the state plan. Documentation in the files is incomplete and personnel do not complete the entire monitoring worksheet. Documentation deficiencies include local agency financial reports (one exception), financial management system review (three exceptions), and nutrition education review (six exceptions).

Personnel performing the monitoring visits acknowledged that the monitoring worksheets were not completed in their entirety and that the individual responsible for assessing nutritional education has never completed the related section of the worksheet. Personnel stated they had completed all of the observations and procedures necessary for each of the reviews and referred us to the final reports. However, the files lack the documentation to support the reports in their entirety. Insufficient documentation increases the risk of noncompliance with monitoring regulations. Further, in the event of employee turnover, WIC loses even the personal recollection of what might have occurred during any particular review. One member of the monitoring team has been with the WIC unit for approximately two years, and when hired, did not receive any training as to how the monitoring visits were to be done and documented.

The state plan also establishes timeframes in which the results of the reviews are to be formally communicated to the local agency, and in which the local agencies are to respond with corrective action plans. WIC personnel created a tracking spreadsheet to assist them in complying with the timeframes. However, we found that five of the monitoring visits reviewed were not tracked properly, and four of the local agencies did not submit corrective action plans in accordance with the state plan. Monitoring team personnel indicated they had not been specifically assigned the responsibility for periodically reviewing the tracking spreadsheet. Not clearly assigning such

responsibility can result in ineffective use of the tracking spreadsheet and increase the likelihood that the local agency monitoring visits are not completed and resolved in accordance with federal regulations. This can lead to increased likelihood of continued noncompliance with WIC regulations on the part of the local agencies and, therefore, the department.

Recommendation #6

We recommend the department:

A. *Provide Women, Infants, and Children program staff training to ensure they complete and document local agency monitoring reviews in accordance with the Women, Infants, and Children program state plan.*

B. *Assign responsibility for updating the Women, Infants, and Children program tracking spreadsheet to ensure local agency monitoring reviews are completed, communicated, and resolved in the timeframes established in the Women, Infants, and Children program state plan.*

High-Risk Vendors

WIC personnel did not follow the state plan for identifying and completing compliance investigations and monitoring visits on high-risk vendors.

High-risk vendors are retailers considered to be at greater risk for violating WIC regulations. Federal regulations require the department to complete compliance investigations on high-risk vendors up to a minimum of 5 percent of all WIC vendors on an annual basis. As required by federal regulation, the WIC state plan includes provisions for identifying vendors considered to be high-risk. The state plan provides for compliance investigations on the top 5 percent of high-risk vendors and for monitoring visits on the next 5 percent of high-risk vendors each year. Criteria used to identify high-risk vendors include, but are not limited to, various check-cashing patterns, such as a large WIC volume in relation to total business or redeeming a large number of high-risk recipients' checks, and a pattern of complaints from WIC recipients.

There are approximately 220 WIC vendors in the state, which means that 11 should receive compliance investigations and 11 should receive monitoring visits, for a total of 22 each year. WIC personnel did not follow the state plan for identifying and completing compliance investigations and monitoring visits on high-risk vendors during fiscal years 2007-08 and 2008-09:

- The criteria used for identifying the high-risk vendors do not include all criteria listed in the state plan.

- Not all of the top 5 percent high-risk vendors were subjected to a compliance investigation; some received a monitoring visit and others were not reviewed at all.
- Some of the next 5 percent high-risk vendors were subjected to a compliance investigation rather than a monitoring visit, while others were not reviewed at all.
- The fiscal year 2007-08 high-risk vendor schedule indicates six of the vendors passed monitoring visits when the visits were not done.
- The state plan includes a provision for evaluating vendors on a quarterly basis; however, the evaluation has been done annually.

Although WIC unit personnel selected enough vendors to meet the numerical requirement (i.e., total of 10 percent), the vendors selected did not include the highest risk vendors identified. For fiscal year 2007-08, 12 of the highest risk vendors were not subjected to any kind of review. For fiscal year 2008-09, that number was 14. With respect to the type of review performed, four of the eight (of the highest risk vendors actually reviewed) for fiscal year 2007-08, and four of ten (of the highest risk vendors actually reviewed) for fiscal year 2008-09 did not receive the appropriate type of review given their risk status.

WIC personnel could not explain why the vendors selected for compliance investigations or monitoring visits had been selected or why the high-risk criteria outlined in the state plan had not all been considered. Further, WIC personnel could not explain why monitoring visits that had not been completed were marked as having been completed. This is an indication that WIC personnel may not be as familiar with the state plan as they should be and the department should provide the necessary training to its personnel.

The WIC state plan is designed to provide assurance the department will comply with federal regulations. When personnel do not follow the provisions of the state plan in performing compliance reviews or monitoring visits on high-risk vendors, there is greater risk of undetected error and noncompliance at the high-risk vendors and a greater risk of undetected misuse or abuse of the WIC benefits.

Recommendation #7

We recommend the department:

A. *Develop procedures to incorporate the requirements of the State Plan when identifying high-risk vendors and document the decisions made with respect to the vendors selected for each type of monitoring.*

B. *Monitor the progress of compliance investigations and monitoring visits as intended.*

C. *Provide training in the provisions of the state plan to Women, Infants, and Children program personnel to provide assurance of compliance with its provisions.*

WIC Vouchers

The department does not account for the disposition of all WIC vouchers within 120 days of the instrument's first valid date as required by federal regulations.

The WIC unit issues over 60,000 WIC vouchers each month. The vouchers function as a check and is the method of conveying WIC benefits to the recipients.

Federal regulations require the WIC unit to account for the disposition of all vouchers within 120 days of the instrument's first valid date for recipient use. The disposition means the voucher has been issued, voided, redeemed or unredeemed. Prior to March 27, 2007, the WIC unit had 150 days to determine final disposition.

We determined the WIC computer system programming does not allow for monitoring final disposition of some vouchers within 120 days of their first valid use dates. According to WIC personnel, the WIC system runs the final disposition of the voucher process at the first of each month. Any vouchers with a last valid use date between the first and last days of the month that is four months (i.e., 120 days) after the first valid use date will not have a final disposition within 120 days; rather, it would have final disposition within 150 days. For example, a voucher with a first valid use date of January 4 should have a final disposition no later than May 4. However, because the final disposition process is run on the first of the month, this voucher will not have a final disposition until June 1. We believe approximately 7.5 percent of vouchers issued during fiscal years 2007-08 and 2008-09 have not had a final disposition in the federally mandated timeframe.

Delaying vouchers' final dispositions could create a higher risk of use after the last valid date. However, the WIC unit has other procedures in place to mitigate that from

occurring to any significant degree. Delaying the vouchers' final dispositions may hinder calculations of statistics related to recipients, usage, error rates, etc.

The change from 150 days to 120 days for final disposition occurred near a time when the WIC unit experienced some staff turnover. This may have contributed to WIC personnel not recognizing a need for a system change.

Recommendation #8

We recommend the department implement procedures to comply with Women, Infant, and Children regulations concerning final disposition of vouchers.

Title IV–E Adoption Program

The department had inadequate documentation for the determination of children having special needs and the efforts to place these children for adoption without a subsidy.

The department administers the Adoption program with federal financial assistance under the provisions of Title IV-E of the Social Security Act. Adoption funds may be spent for maintenance payments to adoptive parents on behalf of eligible children with special needs. Federal regulations require the state to document in each child's adoption case file specific factors that make the child difficult to place and describe the efforts to place the child for adoption without providing assistance.

Three of 20 files reviewed did not have adequate documentation identifying the specific factors that made the child difficult to place, and none of the 20 files had documentation showing the department's efforts used to place the child without providing adoption subsidy. Since federal eligibility regulations require this documentation, these children are not eligible for Title IV- funding.

In the prior audit we recommended the department implement procedures to ensure supporting documentation related to providing adoption without a subsidy is included in each adoption case file. The department concurred with the recommendation and stated they would develop and implement procedures by December 31, 2007. The department did update state policy in October 2008 to instruct staff to include documentation of the reasonable efforts used to place the child without providing adoption subsidy. However, when we reviewed an additional five files of children adopted after October 2008 to determine whether the policy had been implemented,

all five files were missing the documentation. Since federal eligibility regulations require this documentation these children are also not eligible for Title IV- funding.

Department management stated there is no reason why the documentation determining the child's specific needs was not present in the three files missing that information. Management also explained, the policy adopted in October 2008 is not specific enough and needs to be amended. The department should document compliance with federal requirements in regards to determining the child's specific needs and placing a child in an adoptive family without a subsidy payment to ensure compliance with federal regulations.

Since the 25 adoption files we reviewed did not have proper eligibility documentation to meet the federal eligibility requirements we question the adoption subsidy payments for these children of $63,003.

The legislature appropriated $2.4 million in American Recovery and Reinvestment Act (ARRA) funds to the department for the Adoption program for years 2009, 2010, and 2011. This additional funding is for the increased federal participation rate and does not directly relate to an increase in adoption subsidy payments. The additional ARRA adoption funds flow through the internal control structure related to funding allocations.

Recommendation #9

We recommend the department develop and implement procedures to ensure adequate documentation related to the determination of children having special needs and providing adoption without a subsidy is included in each adoption case file in accordance with federal adoption program regulations.

Federal Reporting and Cash Management

The department's internal controls over federal financial reporting and cash management are not adequate.

The Fiscal Operations Bureau is responsible for the accurate preparation and timely submission of various federal program reports. They are also responsible for ensuring the requirements outlined in the federal Cash Management Improvement Act (CMIA) are followed when drawing cash from the federal government. Per federal regulation, the department is required to maintain internal control that provides reasonable assurance

the department is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements. The following paragraphs outline our concerns related to the department's controls over federal reporting.

- **Supervisory reviews and accurate federal reporting**

  The department's internal control policy requires all federal reports to have a secondary supervisory review prior to submission. We reviewed 17 reports submitted for the quarters ending December 31, 2009 and March 31, 2009, and four did not contain evidence of supervisory review.

  We also reviewed these 17 reports for accuracy and identified three instances where the department did not accurately report federal expenditures. During the December 31, 2009 reporting period, the department transposed fiscal year 2008 expenditures with fiscal year 2009 expenditures. In addition, the reported amounts on the December 31, 2008 and March 31, 2009 federal reports included program accruals in error resulting in an overstatement on two reports of actual expenditures by $536,742 and $856,757, respectively.

- **Timely submission of federal reports**

  Federal regulations require recipients of federal funds to report program outlays and program income. Reports required on a quarterly or semiannual basis are due 30 days after the reporting period. When required on an annual basis, reports are due 90 days after the grant year. Final reports are due 90 days after the expiration or termination of grant support.

  We identified six reports which were submitted late by the department. Of these, four were quarterly reports submitted between 11 days and 103 days late, and two were final reports which were submitted 114 days and 180 days late.

- **Cash management of federal funds**

  According to the state's Cash Management Improvement Act Treasury-State Agreement, the state shall request federal funds in accordance with appropriate cut-off times to ensure funds will be received and credited to a state account within a specified timeframes. The state must schedule the receipt of federal funds such that funds are received and credited to a state account in accordance with specified warrant clearance patterns.

  Fiscal staff initiating daily cash draws utilizes a daily cash sheet reviewed by fiscal staff to ensure compliance with the Cash Management Improvement Act (CMIA). We looked at 32 daily cash sheets for evidence of supervisory review. We identified 10 instances in March 2008 and 16 instances in March 2009 where the daily cash sheet had not been reviewed.

  Additional cash management controls adopted by the department include a supervisory review to ensure completeness and accuracy of the CMIA reconciliation worksheet used to verify reported cash activity properly ties to state accounting records. For three programs we verified the applicable supervisor reviewed the CMIA reconciliation for March 2008 and March 2009. We identified four instances, two each month, in which the CMIA reconciliation had not been reviewed by the supervisor.

Department management stated high employee turnover and vacant positions within the Fiscal Operations Bureau contributed to the internal control deficiencies and errors. When turnover occurs, supervisors absorb vacant position responsibilities and train new staff in bureau operations. The additional responsibilities impaired supervisors from complying with internal control policies implemented by the department. The complexity of some program reports has led the bureau to request extensions to ensure accuracy of reported data. However, the department has not received requested extensions due to federal grantor agencies policy requirements.

The department should effectively maintain and enhance its internal control structure. The department should consider cross-training department staff so a backup person is properly trained to compensate for high employee turnover.

The department has recorded approximately $2.1 billion of federal expenditures for the two fiscal years ended June 30, 2009. These federal expenditures flow through the cash management and federal reporting processes described above. The department is receiving an additional $211 million through the American Recovery and Reinvestment Act. These additional dollars will flow through the federal financial reporting and cash management control structure discussed above.

Recommendation #10

We recommend that the department enhance and enforce its internal controls to ensure compliance with federal reporting and cash management requirements.

Federal and State Compliance

The following sections discuss issues where the department can improve compliance with federal or state laws and regulations.

Payments to Employees at Termination

The department did not comply with federal regulation governing payments to employees, resulting in questioned costs of $65,802.

When department personnel find it necessary to terminate an employee, a payment may be offered to the employee to avoid future potential litigation. During the audit period, the department paid a total of $149,250 to nine terminated employees for the purpose of preventing future potential litigation. Of this, we estimate $65,802 was

improperly charged to the following federal programs; $10,000 to the Bioterrorism Grant, $11,250 to Medicaid, and the remaining $44,552 was allocated to various federal programs through the cost allocation process.

Federal regulation indicates settlements resulting from the department's failure to comply with applicable laws and regulations, whether actual or alleged, cannot be charged to federal programs unless specifically preauthorized by the affected federal agency. As a result, we question costs of $65,802 charged to federal programs for the two fiscal years ending June 30, 2009.

Recommendation #11

We recommend the department comply with federal regulations and charge settlement expenditures to nonfederal funds.

Child Care Program

The department charged unallowable costs to the child care grant.

The Child Care and Development Fund (CCDF) federal program provides funds to increase availability, affordability, and quality of child care services for low-income families where the parents are working or attending training or educational programs. The department expended $19,413,184 in fiscal year 2007-08 under this program. Federal regulation, prohibit the department from charging bad debt expenditures to federal programs. In fiscal year 2007-08, the department charged bad debt expenditures amounting to $59,727 to the CCDF program. The bad debt expenditures were overpayments of child care services in prior years. These costs are unallowable, so we question these charges.

Department personnel said the error occurred while converting account receivables balances from one accounting subsystem to another. As part of the conversion, CCDF receivables valued at $59,727 were deemed uncollectable.

Recommendation #12

We recommend the department charge only allowable costs to the Child Care and Development Fund in accordance with federal regulations.

Medicaid Inpatient Hospital and Extended Stay Cost Reports

The department did not adequately enforce the timely submission of Medicaid hospital cost reports.

As part of the medicaid state plan, the department is required to establish methodologies for reimbursing inpatient hospital and long-term care facilities based on payment rates that represent the cost to efficiently and economically operate such facilities and provide Medicaid services. Per federal and state regulations, the department must provide for the filing of uniform cost reports by each participating provider. These cost reports are used by the department to aid in the establishment of payment rates.

The department monitors the submission of the Medicaid Hospital cost reports from participating providers. Cost reports are due five months after the end of the providers fiscal or calendar year. If the department does not receive the cost report within the 150 days it has the ability to withhold reimbursement from the providers until the report is received. Out of 60 providers who submitted cost reports to the department, we identified 35 instances of late submission ranging from one day to 188 days. Department staff responsible for provider cost report oversight acknowledged the late submission of cost reports as an on-going issue.

Recommendation #13

We recommend the department enforce the timely submission of required cost reports in compliance with federal and state regulations.

Medicaid Automated Data Processing (ADP) System Security Reviews

The department does not perform a system security review for all the Medicaid ADP systems.

During the prior audit, the department had not performed periodic risk analyses or biennial system security reviews for its Medicaid automated data processing systems. Federal regulations require the department to establish and maintain procedures for review and analysis of data processing and system security issues for systems used to administer Medicaid. These regulations include directives regarding risk analyses to ensure both new and existing systems include cost effective controls. In addition, the

department is required to perform risk analyses whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to evaluate physical and data security operating procedures and personnel practices. The department is required to maintain reports of its biennial ADP system security reviews, together with pertinent supporting documentation. The ADP systems impacting the Medicaid program include: Medicaid Management Information System, The Economic Assistance Management Systems, Agency Wide and Client Systems, and Combined Health Information and Montana Eligibility System.

Since the prior audit, department personnel have not conducted system security reviews, but have assessed the ADP systems and identified those considered high risk. Department personnel are developing a document outlining roles and responsibilities intended to address the federal requirements; it is undergoing review and approval by management. Department personnel are also developing a Risk Assessment Toolkit to be used when conducting system risk assessments. The department should comply with federal regulations requiring system security reviews be conducted for its ADP systems on at least a biennial basis.

Recommendation #14

We recommend the department comply with the Medicaid federal regulations requiring biennial system security reviews.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors
James Gillett
Angie Grove

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances & Property Held in Trust, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2009, and 2008. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 15, 2009

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2008	$ (34,889,922)	$ 59,740,311	$ 2,383,386	$ 4,309,369	$ (23,824)	$ 0	$ 100,351,777
PROPERTY HELD IN TRUST: July 1, 2008						$ 1,541,675	
ADDITIONS							
Budgeted Revenues & Transfers-In	17,084,919	53,341,441	956,042,024				405,097
Nonbudgeted Revenues & Transfers-In	197,366	4,704,849	113,361,451	2,924,921			19,543,870
Prior Year Revenues & Transfers-In Adjustments	3,530,713	372,196	3,802,918				
Direct Entries to Fund Balance	323,852,967	94,829,372	(241,918)		1,511,876		
Additions to Property Held in Trust						90,647,999	
Total Additions	344,665,965	153,247,858	1,072,964,475	2,924,921	1,511,876	90,647,999	19,948,967
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	339,140,373	117,720,010	1,073,499,147		1,578,121		
Nonbudgeted Expenditures & Transfers-Out	890,662	15,536,997	491,229	2,953,300			4,825,170
Prior Year Expenditures & Transfers-Out Adjustments	1,834,744	106,170	2,904,390		(40,828)		
Reductions in Property Held in Trust						90,592,510	
Total Reductions	341,865,779	133,363,177	1,076,894,766	2,953,300	1,537,293	90,592,510	4,825,170
FUND BALANCE: June 30, 2009	$ (32,089,739)	$ 79,624,992	$ (1,546,905)	$ 4,280,990	$ (49,241)	$ 0	$ 115,475,574
PROPERTY HELD IN TRUST: June 30, 2009						$ 1,597,164	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2007	$ (26,486,676)	$ 65,942,303	$ (414,637)	$ 4,300,840	$ 0	$ 0	$ 84,484,437
PROPERTY HELD IN TRUST: July 1, 2007						$ 1,763,691	
ADDITIONS							
Budgeted Revenues & Transfers-In	18,109,370	48,973,452	816,952,293				443,138
Nonbudgeted Revenues & Transfers-In	269,244	2,505,155	93,908,318	3,040,609			19,969,863
Prior Year Revenues & Transfers-In Adjustments	12,013,677	593,601	(7,670,588)				
Direct Entries to Fund Balance	315,101,142	81,744,279	350,525		280,077		
Additions to Property Held in Trust						89,672,427	
Total Additions	345,493,433	133,816,487	903,540,548	3,040,609	280,077	89,672,427	20,413,001
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	354,918,156	112,391,624	907,957,827		303,901		
Nonbudgeted Expenditures & Transfers-Out	1,927,560	19,525,017	171,559	3,032,080			4,545,661
Prior Year Expenditures & Transfers-Out Adjustments	(2,949,037)	8,101,838	(7,386,861)				
Reductions in Property Held in Trust						89,894,443	
Total Reductions	353,896,679	140,018,479	900,742,525	3,032,080	303,901	89,894,443	4,545,661
FUND BALANCE: June 30, 2008	$ (34,889,922)	$ 59,740,311	$ 2,383,386	$ 4,309,369	$ (23,824)	$ 0	$ 100,351,777
PROPERTY HELD IN TRUST: June 30, 2008						$ 1,541,675	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 62,763	$ 1,036,208				$ 1,098,971
Charges for Services	17,597,304	17,502,699	$ 2,987			35,102,990
Investment Earnings	7,236	1,014,571	16,790	$ 219,542	$ 4,456,962	5,715,101
Fines and Forfeits		209	9,167			9,376
Monetary Settlements		19,698,084	2,803,994		15,009,488	37,511,566
Sale of Documents, Merchandise and Property	1,398	188,148				189,546
Rentals, Leases and Royalties	1,045	20,929				21,974
Grants, Contracts, and Donations		7,813,323				7,813,323
Transfers-in	2,664,028	9,131,442	188,023	2,705,379	482,517	15,171,389
Inception of Lease/Installment Contract	249,678	3,678	341,716			595,072
Federal Indirect Cost Recoveries		206,939	53,692,533			53,899,472
Miscellaneous	205,569	292,209	149,759			647,537
Federal	23,977	1,510,047	1,016,001,424			1,017,535,448
Total Revenues & Transfers-In	20,812,998	58,418,486	1,073,206,393	2,924,921	19,948,967	1,175,311,765
Less: Nonbudgeted Revenues & Transfers-In	197,366	4,704,849	113,361,451	2,924,921	19,543,870	140,732,457
Prior Year Revenues & Transfers-In Adjustments	3,530,713	372,196	3,802,918			7,705,827
Actual Budgeted Revenues & Transfers-In	17,084,919	53,341,441	956,042,024	0	405,097	1,026,873,481
Estimated Revenues & Transfers-In	13,801,300	61,327,090	1,294,057,132		447,800	1,369,633,322
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,283,619	$ (7,985,649)	$ (338,015,108)	$ 0	$ (42,703)	$ (342,759,841)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ (2,237)	$ 15,399				$ 13,162
Charges for Services	1,294,405	(533,568)	$ (26,515,140)			(25,754,303)
Investment Earnings	(3,696)	(1,664,591)	(22,021)		$ (42,703)	(1,733,011)
Fines and Forfeits			(31,240)			(31,240)
Monetary Settlements		1,638,086	(196,006)			1,442,080
Sale of Documents, Merchandise and Property	(402)	(31,557)				(31,959)
Rentals, Leases and Royalties	(353)	(1,774,446)				(1,774,799)
Grants, Contracts, and Donations		(2,817,835)				(2,817,835)
Transfers-in	1,920,385	(5,972,771)	(37,862,275)			(41,914,661)
Federal Indirect Cost Recoveries		787	(598,029)			(597,242)
Miscellaneous	57,540	(205,272)	14,146			(133,586)
Federal	17,977	3,360,119	(272,804,543)			(269,426,447)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,283,619	$ (7,985,649)	$ (338,015,108)	$ 0	$ (42,703)	$ (342,759,841)

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Additional information is provided in the notes to the financial schedules beginning on page A-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	$ 72,856	$ 865,680				$ 938,536
Charges for Services	19,109,566	17,525,415	$ 619			36,635,600
Investment Earnings	3,320	2,498,093	61,343	$ 261,948	$ 5,112,725	7,937,429
Fines and Forfeits			203,290			203,290
Monetary Settlements		18,191,828	2,698,615		13,845,710	34,736,153
Sale of Documents, Merchandise and Property	1,756	238,030				239,786
Rentals, Leases and Royalties	1,346	22,011				23,357
Grants, Contracts, and Donations		5,995,160				5,995,160
Transfers-in	10,927,114	4,809,801	383,552	2,778,661	1,454,566	20,353,694
Inception of Lease/Installment Contract	247,858	21,685	96,706			366,249
Federal Indirect Cost Recoveries		3,760	51,887,418			51,891,178
Miscellaneous	18,197	446,479	137,638			602,314
Federal	10,278	1,454,266	847,720,842			849,185,386
Total Revenues & Transfers-In	30,392,291	52,072,208	903,190,023	3,040,609	20,413,001	1,009,108,132
Less: Nonbudgeted Revenues & Transfers-In	269,244	2,505,155	93,908,318	3,040,609	19,969,863	119,693,189
Prior Year Revenues & Transfers-In Adjustments	12,013,677	593,601	(7,670,588)			4,936,690
Actual Budgeted Revenues & Transfers-In	18,109,370	48,973,452	816,952,293	0	443,138	884,478,253
Estimated Revenues & Transfers-In	14,469,165	56,787,685	951,508,069		475,000	1,023,239,919
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,640,205	$ (7,814,233)	$ (134,555,776)	$ 0	$ (31,862)	$ (138,761,666)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	$ 8,673	$ (26,920)				$ (18,247)
Charges for Services	1,826,158	(589,656)	$ (4,507,259)			(3,270,757)
Investment Earnings	(6,680)	(519,282)	(169,084)		$ (31,862)	(726,908)
Fines and Forfeits			178,290			178,290
Monetary Settlements		(1,126,134)	(3,152,898)			(4,279,032)
Sale of Documents, Merchandise and Property	(44)	4,045				4,001
Rentals, Leases and Royalties	(154)	(1,771,364)				(1,771,518)
Grants, Contracts, and Donations		(2,555,064)				(2,555,064)
Transfers-in	1,949,428	(967,486)				981,942
Federal Indirect Cost Recoveries		(273)	(1,743,392)			(1,743,665)
Miscellaneous	(140,309)	202,888	(417)			62,162
Federal	3,133	(464,987)	(125,161,016)			(125,622,870)
Budgeted Revenues & Transfers-In Over (Under) Estimated	$ 3,640,205	$ (7,814,233)	$ (134,555,776)	$ 0	$ (31,862)	$ (138,761,666)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADDICTIVE & MENTAL DISORDERS	BUSINESS & FINANCIAL SERVICES DIVISION	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DIRECTOR'S OFFICE	DISABILITY SERVICES DIVISION	HEALTH RESOURCES DIVISION	HUMAN AND COMMUNITY SERVICES	PUBLIC HEALTH & SAFETY DIVISION	QUALITY ASSURANCE DIVISION	SENIOR & LONG-TERM CARE	TECHNOLOGY SERVICES DIVISION	TOTAL
Personal Services													
Salaries	$ 23,798,049	$ 2,815,269	$ 14,387,600	$ 6,727,103	$ 4,056,236	$ 17,470,443	$ 3,186,997	$ 16,090,997	$ 7,585,510	$ 5,044,880	$ 7,453,712	$ 3,686,061	$ 112,302,857
Hourly Wages						5,204							5,204
Employee Benefits	10,541,762	919,822	5,120,761	2,315,740	856,626	7,389,127	1,049,676	5,894,276	2,453,098	1,671,558	3,295,560	1,105,892	42,613,898
Total	34,339,811	3,735,091	19,508,361	9,042,843	4,912,862	24,864,774	4,236,673	21,985,273	10,038,608	6,716,438	10,749,272	4,791,953	154,921,959
Operating Expenses													
Other Services	6,105,431	3,546,907	1,509,638	420,760	8,616,331	5,017,166	9,183,371	2,814,953	7,789,607	1,076,038	4,164,065	21,457,136	71,701,403
Supplies & Materials	4,095,413	222,944	342,874	139,729	85,600	1,023,155	346,920	596,561	2,833,488	102,781	1,395,130	347,697	11,532,292
Communications	261,681	627,240	566,175	521,367	56,416	571,433	171,694	722,918	1,371,203	157,621	240,141	705,224	5,973,113
Travel	209,534	19,021	784,350	5,929	142,590	562,461	141,266	334,506	702,694	286,152	118,315	142,083	3,448,901
Rent	708,307	314,180	2,195,281	749,469	225,337	1,002,736	241,028	2,300,583	590,345	525,309	477,118	283,734	9,613,427
Utilities	1,142,665		10,205			375,544		85,633	19,709		228,076		1,861,832
Repair & Maintenance	329,490	59,771	62,067	28,955	10,613	153,855	18,995	189,544	152,866	(860)	563,922	104,652	1,673,870
Other Expenses	2,929,162	(7,110,167)	6,159,979	5,016,374	(12,074,940)	3,773,717	14,872,808	13,289,711	2,413,637	(910,320)	1,795,213	(25,778,679)	4,376,495
Goods Purchased For Resale	139,427					41,122							180,549
Total	15,921,110	(2,320,104)	11,630,569	6,882,583	(2,938,053)	12,521,189	24,976,082	20,334,409	15,873,549	1,236,721	8,981,980	(2,738,153)	110,361,882
Equipment & Intangible Assets													
Equipment	321,326					6,575		84,797	965,108		30,167	618,539	2,026,512
Capital leases - equipment	10,837	27,788	40,363	164,495							(2,690)	365,117	605,910
Total	332,163	27,788	40,363	164,495		6,575		84,797	965,108		27,477	983,656	2,632,422
Capital Outlay													
Other Improvements								154,802					154,802
Total								154,802					154,802
Local Assistance													
From State Sources	2,227,084												2,227,084
Total	2,227,084												2,227,084
Grants													
From State Sources	1,618,406						645,000	7,147,697	5,859,240		4,251,151		19,521,494
From Federal Sources	3,871,679		7,163,367				682,643	12,495,215	12,554,059	514,934	6,312,389		43,594,286
From Other Sources									692,145				692,145
Grant To Governmental Entities									2,145,302				2,145,302
Grant To Non-Governmental Ent									1,563,491				1,563,491
Total	5,490,085		7,163,367				1,327,643	19,642,912	22,814,237	514,934	10,563,540		67,516,718
Benefits & Claims													
To Individuals	59,620,225		29,628,707			117,911,782	538,070,227	77,615,900	4,452,508		232,506,348		1,059,805,697
From State Sources											11,258		11,258
From Federal Sources								127,304,276	8,865,427				136,169,703
Total	59,620,225		29,628,707			117,911,782	538,070,227	204,920,176	13,317,935		232,517,606		1,195,986,658
Transfers-out													
Fund transfers	1,746,327	4,825,169				959,052	14,000,237	147,721			2,663,905		24,342,411
Total	1,746,327	4,825,169				959,052	14,000,237	147,721			2,663,905		24,342,411
Debt Service													
Bonds	1,917,548					1,026,188							2,943,736
Capital Leases			256								13,943	97,289	111,488
Installment Purchases	3,818	6,783	129,241	59,014								41,469	240,325
Total	1,921,366	6,783	129,497	59,014		1,026,188					13,943	138,758	3,295,549
Total Expenditures & Transfers-Out	$ 121,598,171	$ 6,274,727	$ 68,100,864	$ 16,148,935	$ 1,974,809	$ 157,289,560	$ 582,610,862	$ 267,270,090	$ 63,009,437	$ 8,468,093	$ 265,517,723	$ 3,176,214	$ 1,561,439,485
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	$ 59,195,179	$ 834,885	$ 35,777,843	$ 3,427,339	$ 470,884	$ 48,875,658	$ 104,349,870	$ 37,752,155	$ 4,532,637	$ 2,215,652	$ 44,006,672	$ 427,005	$ 341,865,779
State Special Revenue Fund	15,143,640	480,287	2,346,176	2,687,313	108,817	5,205,154	50,898,841	3,729,788	17,827,737	249,872	33,854,964	830,588	133,363,177
Federal Special Revenue Fund	45,341,803	134,385	29,760,764	10,034,283	1,395,108	102,172,997	426,411,869	225,418,178	40,649,063	6,002,569	187,656,087	1,917,660	1,076,894,766
Debt Service Fund	1,917,549					1,035,751							2,953,300
Capital Projects Fund			216,081				950,282	369,969				961	1,537,293
Permanent Fund		4,825,170											4,825,170
Total Expenditures & Transfers-Out	121,598,171	6,274,727	68,100,864	16,148,935	1,974,809	157,289,560	582,610,862	267,270,090	63,009,437	8,468,093	265,517,723	3,176,214	1,561,439,485
Less: Nonbudgeted Expenditures & Transfers-Out	4,689,360	(2,840,753)	6,146,447	4,700,743	(12,370,198)	3,842,080	25,504,033	15,547,450	2,160,903	(953,700)	4,081,063	(25,810,072)	24,697,356
Prior Year Expenditures & Transfers-Out Adjustments	(925,710)	11,832	1,003,417	157,945	150,433	355,390	679,214	(1,887,404)	91,326	(21,435)	4,999,058	190,409	4,804,475
Actual Budgeted Expenditures & Transfers-Out	117,834,521	9,103,648	60,951,000	11,290,247	14,194,574	153,092,090	556,427,615	253,610,044	60,757,208	9,443,228	256,437,602	28,795,877	1,531,937,654
Budget Authority	136,614,497	9,512,473	67,599,494	11,445,329	22,566,522	156,877,674	625,899,088	280,042,243	65,862,647	10,137,514	268,612,245	50,400,355	1,705,570,081
Unspent Budget Authority	$ 18,779,976	$ 408,825	$ 6,648,494	$ 155,082	$ 8,371,948	$ 3,785,584	$ 69,471,473	$ 26,432,199	$ 5,105,439	$ 694,286	$ 12,174,643	$ 21,604,478	$ 173,632,427
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	$ 4,303,401	$ 122,258	$ 1,368,680	$ 105,861	$ 144,943	$ 754,199	$ 8,860,959	$ 671,651	$ 177,092	$ 52,938	$ 3,090,534	$ 61,490	$ 19,714,006
State Special Revenue Fund	1,589,937	21,838	167,519	3	49,855	1,173,959	13,573,386	97,436	385,788	21,609	3,294,077	3,392	20,378,799
Federal Special Revenue Fund	12,886,638	264,729	5,112,295	49,218	8,177,150	1,857,426	47,037,128	25,663,112	4,542,559	619,739	5,790,032	10,801,378	122,801,404
Capital Projects Fund												10,738,218	10,738,218
Unspent Budget Authority	$ 18,779,976	$ 408,825	$ 6,648,494	$ 155,082	$ 8,371,948	$ 3,785,584	$ 69,471,473	$ 26,432,199	$ 5,105,439	$ 694,286	$ 12,174,643	$ 21,604,478	$ 173,632,427

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PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	ADDICTIVE & MENTAL DISORDERS	BUSINESS & FINANCIAL SERVICES DIVISION	CHILD & FAMILY SERVICES	CHILD SUPPORT ENFORCEMENT	DIRECTOR'S OFFICE	DISABILITY SERVICES DIVISION	HEALTH RESOURCES DIVISION	HUMAN AND COMMUNITY SERVICES	PUBLIC HEALTH & SAFETY DIVISION	QUALITY ASSURANCE DIVISION	SENIOR & LONG-TERM CARE	TECHNOLOGY SERVICES DIVISION	TOTAL
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	$ 22,526,050	$ 2,809,158	$ 13,520,598	$ 6,353,636	$ 3,571,630	$ 16,924,891	$ 2,958,089	$ 15,456,644	$ 6,999,300	$ 4,758,664	$ 7,105,451	$ 2,983,029	$ 105,967,140
Hourly Wages						11,913		715					12,628
Employee Benefits	10,053,959	897,051	4,708,695	2,185,949	597,921	7,046,659	973,731	5,595,454	2,256,680	1,558,502	3,120,283	905,216	39,900,100
Total	32,580,009	3,706,209	18,229,293	8,539,585	4,169,551	23,983,463	3,931,820	21,052,813	9,255,980	6,317,166	10,225,734	3,888,245	145,879,868
Operating Expenses													
Other Services	6,996,037	3,489,559	1,079,389	404,228	8,846,065	3,928,759	8,883,094	2,577,071	6,784,456	316,713	4,163,889	14,027,846	61,497,106
Supplies & Materials	4,105,252	161,651	578,584	180,292	98,150	1,317,199	147,872	528,494	2,376,271	168,181	1,311,630	290,224	11,263,800
Communications	240,208	689,108	597,117	546,479	64,521	433,687	246,266	696,556	1,778,985	196,376	197,694	680,601	6,367,598
Travel	241,171	18,826	689,160	28,904	130,474	330,990	141,697	358,551	779,370	296,465	133,186	46,810	3,195,604
Rent	668,648	286,190	1,992,784	732,271	156,591	955,687	216,221	2,119,640	582,050	492,005	334,668	237,978	8,774,733
Utilities	1,169,255		10,220			400,400		92,613	3,640	99	204,276		1,880,503
Repair & Maintenance	441,818	189,271	57,223	20,772	9,488	173,953	17,479	175,054	147,424	23,682	607,414	76,780	1,940,358
Other Expenses	2,981,423	(6,843,487)	5,576,348	5,021,555	(13,202,845)	4,001,596	12,103,287	13,481,341	2,456,737	(918,658)	1,897,074	(21,677,769)	4,876,602
Goods Purchased For Resale	163,721					53,820							217,541
Total	17,007,533	(2,008,883)	10,580,825	6,934,501	(3,897,556)	11,596,091	21,755,916	20,029,320	14,908,933	574,863	8,849,831	(6,317,530)	100,013,845
Equipment & Intangible Assets													
Equipment	227,741		81,190			57,356	5,534	90,587	446,723	7,500	268,644	345,288	1,530,563
Capital leases - equipment		9,307	329,848								27,095		366,250
Total	227,741	9,307	411,038			57,356	5,534	90,587	446,723	7,500	295,739	345,288	1,896,813
Local Assistance													
From State Sources	1,678,740												1,678,740
Total	1,678,740												1,678,740
Grants													
From State Sources	6,479,184						645,000	7,933,719	3,736,727		3,980,249		22,774,879
From Federal Sources	3,907,646		5,076,662				636,367	11,489,194	13,549,003	550,379	7,230,438		42,439,689
From Other Sources									690,876				690,876
Grant To Governmental Entities									3,234,636				3,234,636
Grant To Non-Governmental Ent									2,590,633				2,590,633
Total	10,386,830		5,076,662				1,281,367	19,422,913	23,801,875	550,379	11,210,687		71,730,713
Benefits & Claims													
To Individuals	43,750,549		29,386,705			114,422,699	469,102,600	61,694,676	4,129,838		208,515,210		931,002,277
From State Sources											38,590		38,590
From Federal Sources							627	102,387,299	9,804,891				112,192,817
Total	43,750,549		29,386,705			114,422,699	469,103,227	164,081,975	13,934,729		208,553,800		1,043,233,684
Transfers-out													
Fund transfers	1,796,631	58,975	1,000,000			982,030	15,257,293	143,616			10,867,962	4,545,661	34,652,168
Total	1,796,631	58,975	1,000,000			982,030	15,257,293	143,616			10,867,962	4,545,661	34,652,168
Debt Service													
Bonds	1,917,176					1,025,935							2,943,111
Capital Leases				59,014							14,003	12,045	85,062
Installment Purchases	38,154	32,587	118,350		3,658							232,572	425,321
Total	1,955,330	32,587	118,350	59,014	3,658	1,025,935					14,003	244,617	3,453,494
Total Expenditures & Transfers-Out	$ 109,383,363	$ 1,798,196	$ 64,802,873	$ 15,533,100	$ 275,653	$ 152,067,574	$ 511,335,157	$ 224,821,224	$ 62,348,240	$ 7,449,908	$ 250,017,756	$ 2,706,281	$ 1,402,539,325
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	$ 56,570,417	$ 1,271,310	$ 35,177,418	$ 4,286,386	$ (180,297)	$ 53,714,050	$ 110,615,053	$ 35,293,660	$ 4,181,150	$ 1,997,463	$ 51,381,799	$ (411,730)	$ 353,896,679
State Special Revenue Fund	14,129,011	545,764	2,577,894	2,534,127	65,196	4,757,296	54,675,655	2,955,542	16,504,172	183,035	41,086,035	4,752	140,018,479
Federal Special Revenue Fund	36,677,790	(18,878)	26,985,758	8,712,587	390,754	92,570,293	346,021,532	186,353,610	41,662,918	5,269,410	157,549,922	(1,433,171)	900,742,525
Debt Service Fund	2,006,145					1,025,935							3,032,080
Capital Projects Fund			61,803				22,917	218,412				769	303,901
Permanent Fund												4,545,661	4,545,661
Total Expenditures & Transfers-Out	109,383,363	1,798,196	64,802,873	15,533,100	275,653	152,067,574	511,335,157	224,821,224	62,348,240	7,449,908	250,017,756	2,706,281	1,402,539,325
Less: Nonbudgeted Expenditures & Transfers-Out	4,610,718	(7,868,640)	6,657,600	4,704,093	(13,266,970)	3,796,846	27,520,794	14,938,509	2,031,177	(976,799)	4,137,378	(17,082,829)	29,201,877
Prior Year Expenditures & Transfers-Out Adjustments	(2,518,780)	60,486	52,500	23,448	(44,888)	(209,564)	(4,005,034)	(261,829)	(485,274)	(59,861)	6,004,540	(789,806)	(2,234,062)
Actual Budgeted Expenditures & Transfers-Out	107,291,425	9,606,350	58,092,773	10,805,559	13,587,511	148,480,292	487,819,397	210,144,544	60,802,337	8,486,568	239,875,838	20,578,916	1,375,571,510
Budget Authority	130,248,329	10,033,322	64,246,847	11,171,813	30,099,662	151,587,691	560,806,674	227,823,689	66,033,429	9,129,077	254,435,712	45,765,317	1,561,381,562
Unspent Budget Authority	$ 22,956,904	$ 426,972	$ 6,154,074	$ 366,254	$ 16,512,151	$ 3,107,399	$ 72,987,277	$ 17,679,145	$ 5,231,092	$ 642,509	$ 14,559,874	$ 25,186,401	$ 185,810,052
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	$ 3,675,409	$ 175,881	$ 1,039,417	$ 246,794	$ 403,028	$ 1,041,592	$ 13,009,868	$ 936,329	$ 363,454	$ 83,887	$ 2,746,515	$ 224,014	$ 23,946,188
State Special Revenue Fund	5,317,977	13,054	193,637	94,077	124,779	1,119,601	12,647,836	193,802	510,030	61,895	2,666,474	24,992	22,968,154
Federal Special Revenue Fund	13,963,518	238,037	4,921,020	25,383	15,984,344	946,206	47,329,573	16,549,014	4,357,608	496,727	9,146,885	12,621,056	126,579,371
Capital Projects Fund												12,316,339	12,316,339
Unspent Budget Authority	$ 22,956,904	$ 426,972	$ 6,154,074	$ 366,254	$ 16,512,151	$ 3,107,399	$ 72,987,277	$ 17,679,145	$ 5,231,092	$ 642,509	$ 14,559,874	$ 25,186,401	$ 185,810,052

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Public Health and Human Services
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2009

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, Capital Projects, and Permanent). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis of accounting for its Fiduciary fund category (Agency). The activity in the Agency Fund consists of additions and reductions to Property Held in Trust.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Activity in the department's State Special Revenue Fund includes the Public Health Laboratory, free weatherization, child support incentive

payments, cigarette tax expenditures, and third party liability recoveries. The fund also accounts for activity at the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital supported by insurance and individual payments.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The majority of the activity recorded in the department's Federal Special Revenue Fund includes federal grants such as Medicaid; Temporary Assistance to Needy Families; Low-Income Home Energy Assistance Program; Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children; Supplemental Nutrition Assistance Program; Child and Adult Nutrition; Children's Health Insurance Plan; Social Services Block Grant; Adoption Assistance; Center for Disease Control; Substance Abuse, Prevention and Treatment; and Child Care Development Fund Grant programs.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long term debt principal and interest. The department accounts for the Montana State Hospital and Montana Developmental Center bond payments in this fund.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for major Information Technology systems.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department accounts for Endowment of Children and the Montana Tobacco Settlement activity in this fund.

Fiduciary Fund Category

- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency Funds may be used on a limited basis for internal (to the state) clearing account activity but these must have a zero balance at fiscal year-end. The department uses Agency Funds to account for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster care children, and residents of care facilities.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative General Fund balances for each of the fiscal years ended June 30, 2009, and June 30, 2008.

3. Direct Entries to Fund Balance

The department recorded $323,852,967 and $315,101,141 of direct entries to fund balance in the General Fund during fiscal years 2008-09, and 2007-08, respectively. Most of the direct entries to fund balance in the General Fund result from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies. Direct entries to fund balances in the State Special Revenue Fund resulted from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies. The activities include earmarked alcohol funds, cigarette tax, tobacco health, Medicaid hospital and nursing home utilization, and handicapped telecommunications. In fiscal year 2008-09, it also includes the Healthy Montana Kids Program established in November 2008 through Initiative I-155.

4. Nonbudgeted Activity

The department recorded Nonbudgeted Revenues and Transfers-In related to Supplemental Nutrition Assistance Program of $113 million and $94 million in the Federal Special Revenue Fund in fiscal years 2008-09, and 2007-08, respectively. Expenditure abatements (negative amounts) in the "Other Expenses" Operating Expenses account category are related to the department's cost allocation plan for fiscal years 2008-09, and 2007-08.

5. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act (ARRA) was enacted by the United States Congress to preserve and create jobs and promote economic recovery. The department reports that it expects to receive federal funding from ARRA totaling approximately $279,457,340. Of this amount, $278,729,930 was appropriated in House Bill 645 of the 2009 Legislative Session and $727,410 was awarded through other means in the form of nonmonetary assistance. Of the amount appropriated in House Bill 645, $68,360,358 was received and $68,621,604 was expended or accrued by June 30, 2009. Of the nonmonetary assistance awarded, Food Commodities equaling $255,188 were received by June 30, 2009, but none was distributed. The department has applied for no additional funding and has not received additional ARRA assistance.

6. Child Support Payments in the Agency Fund

The child support payments collected on behalf of children and distributed to custodial parents account for the majority of activity recorded as Property Held in Trust (PHIT) as shown in the Agency Fund. The additions to PHIT are $90,647,999 and $89,672,427, and the reductions to PHIT are $90,592,510 and $89,894,443, in fiscal years 2008-09 and 2007-08, respectively.

7. Contingencies

The Blanton v. DPHHS class action lawsuit challenges the validity of the Department's liens on third party settlements received by Medicaid recipients to reimburse them for injuries for which Medicaid has paid medical expenses. The loss could range from $3 million to $12 million dollars and has not been recorded in the financial statements.

Department of Public Health and Human Services

Department Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES

BRIAN SCHWEITZER
GOVERNOR

JOAN MILES
DIRECTOR

STATE OF MONTANA

www.dphhs.mt.gov

RECEIVED
OCT 29 2009
LEGISLATIVE AUDIT DIV.

October 29, 2009

Tori Hunthausen
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

Dear Ms. Hunthausen:

The Department of Public Health and Human Services has reviewed the Financial Compliance Audit for the Two Fiscal Years Ended June 30 2009 (09-14) completed by the Legislative Audit Division. Enclosed you will find our responses to each recommendation along with expected corrective actions and planned resolution dates.

I would like to thank your staff for their professionalism and cooperation during this audit.

Sincerely,

Anna Whiting Sorrell
Director

Recommendation #1

We recommend the department:

A. Implement procedures to ensure federal Low Income Energy Assistance Program and Weatherization program eligibility guidelines are applied consistently.

B. Enhance monitoring control tests to identify errors in the Low Income Energy Assistance Program and Weatherization Programs.

Concur

All erroneous benefits were promptly repaid by the Human Resource Development Council (HRDC) from non-federal resources and credited to the federal programs. The Human and Community Services Division (HCSD) has reinforced the importance of consistent eligibility determination calculations with the specific HRDC and its case manager. In addition, the HRDC has increased monitoring activities to include 100% review of this manager's cases before submittal and the HCSD has increased reviews of applicants falling just within or outside the eligibility guidelines statewide.

Expected resolution date: Completed

Recommendation #2:

We recommend the department develop and implement procedures to ensure the Vocational Rehabilitation counselors comply with federal regulations and state and department policy when processing the recipient's application and benefits.

Concur

The questioned costs have been corrected and the expenditures moved to the general fund.

Disability Services Division Management has identified two corrective actions to improve the future accuracy of case files; increased training and risk based case reviews. Procedural weaknesses identified during the audit will be re-addressed in the upcoming Vocational Rehabilitation (VR) section state-wide application and eligibility process training. In addition to providing case manager training in November 2009 the VR section will target weaknesses during upcoming case reviews. The VR section performs two significant case review functions: 1) an internal team case review process each fall and 2) ongoing supervisory review. VR management revises the case review instrument each year and the upcoming annual review will give more weight to areas identified during the audit.

Expected resolution date: January 31, 2010

Recommendation #3:

We recommend the department develop and implement procedures to limit enrollment in the Children's Health Insurance Program to families who meet income requirements of the state plan and federal regulations.

Concur

Montana Children Health Insurance Plan (CHIP) discontinued the self-declaration of income policy and implemented new income verification procedures for the Healthy Montana Kids (HMK) coverage group (formerly CHIP). For enrollment on or after October 1, 2009, the program requires income verification prior to enrollment of eligible children in the HMK coverage group.

Expected resolution date: Completed

Recommendation #4:

We recommend the department:

A. Monitor compliance with established policy to ensure income verifications are performed.

B. Obtain a waiver for alternative income verification procedures or perform the income verification procedures as required by Temporary Assistance to Needy Families and Supplemental Nutrition Assistance Program regulations.

Concur

The Human and Community Services Division will utilize the supervisory case review and quality assurance processes to ensure income verifications are performed. The department has been unable to receive an exception to allow the use of the National Directory of New Hire (NDNH) in place of Montana Integrated System for Improved Customer Service (MISTICS) therefore the department will implement automated access to the MISTICS system by March 31, 2010. The department will continue gathering the necessary information via the NDNH until the automated MISTICS quarterly match and reporting process is completed.

Expected resolution date: March 31, 2010

Recommendation #5:

We recommend the department enforce current procedures to ensure all out-of-state benefits for Temporary Assistance to Needy Families are properly recorded on the department's records as required by federal regulations.

Concur

The Human and Community Services Division will provide refresher training to both the office of public assistance and central office staff regarding the importance of accurate documentation and review this established procedure by January 31, 2010. Ongoing monitoring of this and all other eligibility determination procedures will occur during supervisory case reviews and quality assurance processes.

Expected resolution date: January 31, 2010

Recommendation #6:

We recommend the department:

A. Provide Women, Infants and Children program staff training to ensure they complete and document local agency monitoring reviews in accordance with the Women, Infants and Children state plan.

B. Assign responsibility for updating the Women, Infants and Children program tracking spreadsheet to ensure local agency monitoring reviews are completed, communicated and resolved in the timeframes established in the Women, Infants and Children state plan.

Concur

The Public Health and Safety Division will provide training to staff regarding complete documentation and filing requirements for monitoring visit reports. This training will be provided in time for the next round of monitoring visits. The responsibility for communicating, tracking and completion of follow up reporting of monitoring visits has been assigned to a WIC Prevention Specialist.

Expected resolution date: February 28, 2010

Recommendation #7:

A. Develop procedures to incorporate the requirements of the State Plan when identifying high-risk vendors and document the decisions made with respect to the vendors selected for each type of monitoring.

B. Monitor the progress of compliance investigations and monitoring visits as intended.

C. Provide training in the provisions of the state plan to Women's Infants and Children program personnel to provide assurance of compliance with its provisions.

Concur

The Public Health and Safety Division has and will continue to provide additional training to staff to ensure they understand the procedures and the criteria for identifying high-risk vendors. In the future staff will document all decisions regarding compliance buys and monitoring visits for high risk vendors and all compliance buys, monitoring visits, letters and follow up will be tracked and monitored by the Retailer Services Coordinator. All compliance buys and monitoring visits were completed and appropriately documented in federal fiscal year 2009.

Expected resolution date: Completed

Recommendation #8:

We recommend the department implement procedures to comply with Women, Infants and Children regulations concerning the final disposition of vouchers.

Concur

The Public Health and Safety Division is implementing a new WIC management system (M-SPIRIT). This more robust system will automate a timely voucher disposition process by auto expiring all benefit checks during the nightly process on the day they are due to expire. M-SPIRIT will be piloted in December of 2009 and rolled out in all other sites by January 31, 2010.

Expected resolution date: January 31, 2010

Recommendation #9:

We recommend the department develop and implement procedures to ensure adequate documentation related to the determination of children having special needs and providing adoption without a subsidy is included in each adoption case file in accordance with federal adoption program regulations.

Concur

The adoption subsidy negotiation procedures as well as the case files in question are being reviewed by the Child and Family Services Division. The procedure and documentation standards will be strengthened as necessary to facilitate understanding and assurance over this federal requirement.

Expected resolution date: December 31, 2009

Recommendation #10:

We recommend that the department enhance and enforce its internal controls to ensure compliance with federal reporting and cash management requirements.

Concur

The Business and Financial Services Division is in the process of developing desk manuals for every position in the division. These desk manuals will include monitoring and verification procedures to facilitate timely error detection. In addition to desk manuals training plans for each position are being reviewed and updated. The completion of these desk manuals and strengthening of the divisions training programs will allow the division to more quickly respond to staff shortages and maintain quality work products.

Expected resolution date: March 31, 2010

Recommendation #11:

We recommend the department comply with federal regulations and charge settlement expenditures to nonfederal funds.

Concur

The department has drafted a policy clarifying that all settlements must be paid by non-federal funds. All settlements identified during the audit have been corrected and the costs moved to the general fund.

Expected resolution date: Completed

Recommendation #12:

We recommend the department charge only allowable costs to the Child Care and Development Fund in accordance with federal regulations.

Concur

The Business and Financial Services Division has clarified procedures to indicate that bad debt expenditures must not be paid by federal funds. All bad debt costs identified during the audit have been corrected and the costs moved to the general fund.

Expected resolution date: Completed

Recommendation #13:

We recommend the department enforce the timely submission of required cost reports in compliance with federal and state regulations.

Concur

The Health Resources Division will pursue a change to the Administrative Rules of Montana to better align the required timeframes with the business processes for Medicaid and Medicare.

Expected resolution date: June 30, 2010

Recommendation #14:

We recommend the department comply with the Medicaid federal regulations regarding biennial system security reviews.

Concur

The Department understands the importance of a strong security plan. As such the Technology Services Division now has a designated Security Officer and newly hired Security Business Analyst. The division completed a risk assessment of the first major Medicaid system in September of this year. The three additional Medicaid system assessments will be completed by March of 2010 and the division will implement a process to ensure all required assessments are completed on a biennial basis.

Expected resolution date: March 31, 2010